

Message Text

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43

ACTION ARA-10

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4742

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E.O. 11652: N/A

TAGE : EGEN,PINT,AR

SUBJ: ECONOMY MINISTER MONDELLI ANNOUNCES NEW PROGRAM

1. MONDELLI SPOKE ON NATIONAL TV AND RADIO NETWORK EVENING OF MARCH 5. IN WELL-PRESENTED, EMPHATIC AND EXHORTATORY ADDRESS, SPOTTED WITH QUOTATIONS FROM GENERAL PERON HE OUTLINED CRITICAL SITUATION OF ECONOMY AND URGED RESTRAINT, UNDERSTANDING AND COOPERATION FROM ALL SECTORS. OVERALL KEYNOTE WAS "PRODUCE, PRODUCE AND PRODUCE." FOLLOWING PREVIOUS PRACTICE, MONDELLI WAS ACCOMPANIED BY MEMBERS OF HIS ECONOMIC TEAM; HIS STATE SECRETARIES AND CENTRAL BANK PRESIDENT ZALDUENDO, WHOSE DEPARTURE FOR THE US NEXT WEEK TO MEET WITH IMF OFFICIALS HAD BEEN EARLIER ANNOUNCED.

2. SUMMARY OF MEASURES ADOPTED OR TO BE ADOPTED AS FOLLOWS:

(A) SIX MONTHS "TRUCE" HENCEFORTH ON PRICE AND WAGE INCREASES.

(B) GENERAL SALARY AND WAGE INCREASE OF 12 PERCENT, EFFECTIVE MARCH

1.

FRIMS MUST ABSORB 50 PCT. THIS INCREASE. ANY UNOFFICIAL WAGE INCREASE MAY NOT BE PASSED ALONG TO PRICES.

(C) FOREIGN EXCHANGE MEASURES: EFFECTIVE IMMEDIATELY, THERE ARE TWO LEGAL RATES; AN OFFICIAL RATE OF PS. 140 PER DOLLAR FOR ALL

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TRANSACTIONS PREVIOUSLY CONDUCTED AT THE FINANCIAL RATE (76.70)

AND THE SPECIAL FINANCIAL RATE (109.10). IN ADDITION THERE WILL BE A FREE RATE FOR OTHER TRANSACTIONS CORRESPONDING TO THE PREVIOUS TOURIST RATE (AT ABOUT PS 255 ON ARCH 5).

(D) PRICE CONTROLS WILL BE TIGHTLY ENFORCED ON THE CONSUMER ESSENTIAL MARKET BASKET ITEMS.

(E) MEASURES WILL BE TAKEN TO PROMOTE THE RETURN TO THE PRIVATE SECTOR OF FIRMS AND INDUSTRIES IN ECONOMIC DIFFICULTIES TAKEN OVER BY THE PUBLIC SECTOR FOR REORGANIZATION.

(F) REGULATION OF THE FOREIGN INVESTMENT LAW WILL BE CHANGED SO AS TO ATTRACT FOREIGN CAPITAL.

(G) IMPORT LICENSES AND CONTROLS WILL BE STRICTLY ADMINISTERED TO LIMIT IMPORTS TO ESSENTIALS, AND PARTICULARLY TO REDUCE LUXURY GOODS IMPORTS.

(H) WHILE MONDELLI ONLY REFERRED IN GENERAL TERMS TO INCREASES IN FUELS AND PUBLIC SERVICE RATES, PRESS MARCH 6 ANNOUNCES INCREASES IN GASOLINE (86 PERCENT FOR REGULAR), FUEL OIL, DIESEL OIL, GAS OIL, KEROSENE, ELECTRICITY, GAS AND WATER. DOMESTIC RAILWAY, AIR AND WATER TRANSPORT TARIFFS TO INCREASE BETWEEN 60 AND 150 PERCENT.

3. EMBASSY WILL REPORT DETAILS SUBSEQUENTLY. MONDELLI ALSO CAME DOWN HARD REPEATEDLY ON SPECULATORS AND PROMISED THAT BURDENS OF PROGRAM TO BRING ARGENTINA BACK TO PROSPERITY MUST BE BORNE BY FIRMS AND ALL INDIVIDUALS. LABOR NOT TO BEAR COST ALONE, GOA WILL ITSELF EXERCISE RESTRAINT ON EXPENDITURES BUT WILL SEEK THROUGH PUBLIC WORKS PROGRAMS, ESPECIALLY REGIONAL PROGRAMS, TO ALLEVIATE UNEMPLOYMENT. WITH RESPECT TO FOREIGN FINANCING AND CREDITS, MONDELLI SAID GOA PREPARED TO TURN TO ALL INTERNATIONAL INSTITUTIONS - INCLUDING IMF - FRIENDLY COUNTRIES AND PRIVATE INSTITUTIONS. HE CITED ASSISTANCE ALREADY RECEIVED FROM THESE SOURCES.

4. COMMENT: MONDELLI'S PROPOSALS ARE INDEED SEVERE. KEY QUESTIONS ARE WHETHER PRESENT GOVERNMENT HAS STRENGTH TO CARRY OUT PROGRAM AND, MORE IMPORTANT, WHETHER LABOR WILL GO ALONG, ESPECIALLY WITH 12 PERCENT WAGE INCREASE, WHICH NOT MUCH CONSIDERING RECENT LIMITED OFFICIAL USE

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INFLATION. EARLY INDICATIONS ARE THAT LABOR WILL BALK, BUT THERE COULD BE SOME FURTHER DEAL. BUSINESS AND INDUSTRY WILL NOT BE PLEASED WITH CONTINUED CONTROLS AND TIGHTENING OF TAXES BUT COULD SCARCELY HAVE EXPECTED SUBSTANTIVE FREEING OF ECONOMY. THEY SHOULD RECOGNIZE PUBLIC ACCEPTANCE OF RENEWED AND CONTINUING GOA RELATIONS WITH IMF AS IMPORTANT FORWARD STEP. EMBASSY WILL SUBMIT FURTHER ANALYSIS AND COMMENT NEXT WEEK AS DUST SETTLES.
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